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Franchise Tax Credit

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1

Outline

- Iowa Franchise Tax Credit overview
- How neighboring states tax S corp financial institutions and shareholders
- Total franchise tax revenue and credit claims
- Franchise Tax Credits available, claimed, and expired by tax year
- Iowa Franchise Tax Credit claims by resident status and claims by AGI
- Conclusion

2

Franchise Tax Credit Overview

- Franchise Tax:
 - Entity level (financial institutions): 5 percent net income
 - Shareholder level:
 - S corp income passed through to shareholders
 - Subject to Iowa individual and corporate income tax
- Franchise Tax Credit:
 - Available to shareholders (individual and corporate)
 - Non-refundable: cannot exceed shareholder's portion of franchise tax paid
 - Administrative tax credit:
 - Created to avoid double taxation
 - Not intended to alter taxpayers' behavior

How Neighboring States Tax S Corp Financial Institutions and Shareholders

- Illinois (Corporate Income Tax):
 - 1.5 percent property tax replacement income tax
 - 0.1 percent of net worth (phased out by 2024)
 - No tax credit on pass-through income
- Minnesota (Corporate Franchise Tax):
 - Flat tax of 9.8 percent of income
 - Minimum fee based on 3-factor value
 - No tax credit on pass-through income
- Missouri (Financial Institutions Tax):
 - 4.48 percent of net income
 - Tax credit available to shareholders on pass-through income

How Neighboring States Tax S Corp Financial Institutions and Shareholders, cont.

- **Nebraska (Financial Institution Tax):**
 - \$0.47 per \$1,000 of average deposits, up to 3.81 percent net financial income
 - Tax credit available to shareholders on pass-through income
- **South Dakota (Bank Franchise Tax):**
 - Graduated tax rate of 6 percent net income to 0.25 percent
 - Shareholders not taxed on pass-through income (no state individual income tax)
- **Wisconsin (Corporate Income Tax):**
 - Flat corporation income tax of 7.9 percent
 - Shareholders may exclude pass-through income

Net Franchise Tax Revenues by Fiscal Year and Franchise Tax Credit Claims by Tax Year

Fiscal Year	Net Franchise Tax Revenues (\$ Millions)	Tax Year	Franchise Tax Credit Claims (\$ Millions)	Percent of Revenues Claimed as Credits
2013	\$37.5	2012	\$20.5	54.7%
2014	\$32.2	2013	\$17.1	53.1%
2015	\$36.2	2014	\$20.0	55.3%
2016	\$46.0	2015	\$21.1	45.8%
2017	\$35.4	2016	\$22.1	62.4%
2018	\$26.0	2017	\$20.7	79.6%
2019	\$37.3	2018	\$25.4	68.2%
2020	\$66.5	2019	\$24.9	37.5%
2021	\$50.4	2020*	\$20.4	40.5%
Average	\$36.6		\$18.1	49.5%

*Incomplete Tax Year

Source: Iowa Individual income tax returns and Tax Credit Award, Claim & Transfer Administration System (CACTAS)

Franchise Tax Credits Available, Claimed, and Expired by Tax Year

Tax Year	Franchise Tax Credits Available		Franchise Tax Credit Claims		Franchise Tax Credit Claims Expired		
	Number of Taxpayers	\$ Credits Available	Number of Taxpayers	\$ Credits Claimed	Number of Taxpayers	\$ Credits Expired	Percent Expired
2013	2,691	\$18,526,769	2,651	\$17,108,425	527	\$1,419,733	7.7%
2014	2,550	\$20,832,649	2,548	\$20,010,300	313	\$834,410	4.0%
2015	2,637	\$21,569,767	2,633	\$21,087,923	349	\$507,242	2.4%
2016	2,696	\$22,700,829	2,694	\$22,104,074	331	\$631,873	2.8%
2017	2,636	\$21,108,349	2,632	\$20,712,237	318	\$631,912	3.0%
2018	2,651	\$25,578,058	2,645	\$25,413,592	264	\$633,142	2.5%
2019	2,654	\$25,664,544	2,651	\$24,908,259	367	\$923,130	3.6%
2020*	2,152	\$22,124,677	2,149	\$20,418,485	251	\$1,874,188	8.5%
Average	2,497	\$19,304,089	2,462	\$18,142,441	407	\$1,239,332	6.4%

*Incomplete Tax Year

Source: Iowa Individual income tax returns and Tax Credit Award, Claim & Transfer Administration System (CACTAS)

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7

Franchise Tax Credit Claims by Resident Status, Tax Years 2013-2020 (nominal \$)

Tax Year	Resident					Non-Resident				
	Number of Households	Amount of Claims	Average Claim Amount	Share of Claimants	Share of Claim Dollars	Number of Households	Amount of Claims	Average Claim Amount	Share of Claimants	Share of Claim Dollars
2013	1,856	\$13,199,588	\$7,112	80%	77%	473	\$3,256,926	\$6,886	20%	23%
2014	1,731	\$14,797,598	\$8,549	80%	76%	442	\$4,274,590	\$9,671	20%	24%
2015	1,806	\$15,825,391	\$8,763	80%	78%	464	\$4,201,810	\$9,056	20%	22%
2016	1,876	\$16,952,110	\$9,036	80%	78%	465	\$4,432,762	\$9,533	20%	22%
2017	1,815	\$15,794,580	\$8,702	79%	77%	473	\$4,425,585	\$9,356	21%	23%
2018	1,807	\$18,219,905	\$10,083	79%	74%	479	\$6,138,064	\$12,814	21%	26%
2019	1,843	\$18,219,483	\$9,886	79%	74%	480	\$6,129,541	\$12,770	21%	26%
2020*	1,411	\$14,843,726	\$10,520	83%	77%	292	\$2,752,966	\$9,428	17%	23%
Average	1,768	\$15,981,548	\$9,081	80%	76%	446	\$4,451,531	\$9,939	20%	24%

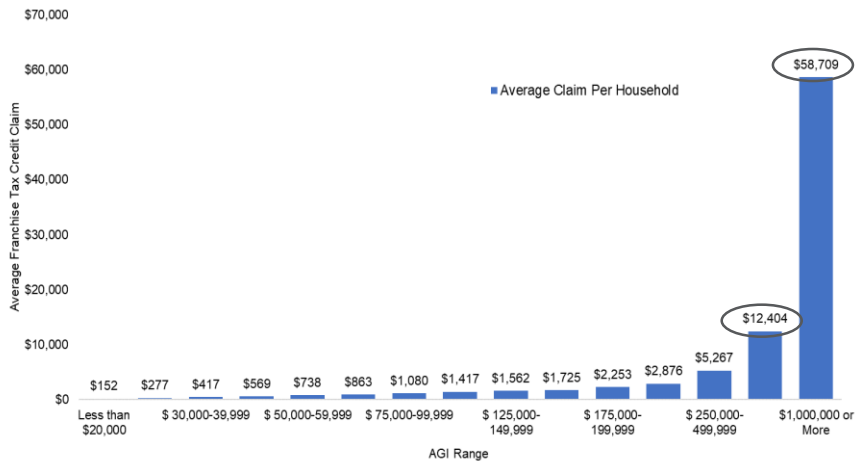
*Incomplete Tax Year

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8

Average Franchise Tax Credit Claim by Adjusted Gross Income, 2013-2020*



*Adjusted to 2020 dollars

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Source: Iowa Individual income tax returns and Tax Credit Award, Claim & Transfer Administration System (CACTAS)

9

Conclusion

- Franchise tax credit
 - Administrative tax credit to avoid double taxation of S-corporate income at shareholder level
 - Nearly 50 percent of net franchise tax revenues claimed as Franchise Tax Credits by shareholders
 - Low expiration rate of credits (6.4%)
 - Number and total claims: higher for residents than non-residents
 - Average claim amount: higher for non-residents (\$10,000) than residents (\$9,100)
 - Average claim amount by AGI: highest for high income households (\$1,000,000 AGI or more)

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10

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Thank you!